Alberta Oil and Gas

ANNUAL REPORT 1994

ABOUT THE COMPANY

Alberta Oil and Gas Limited is a Calgary based, independent oil and gas company, listed on the Alberta Stock Exchange. The Company has achieved growth by pursuing a disciplined strategy based on property acquisitions and high grade development projects. Alberta Oil and Gas Limited conducts activities exclusively in the western Canadian sedimentary basin, with a talented staff of industry professionals.

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NOTICE OF ANNUAL GENERAL MEETING

The annual general meeting of Alberta Oil and Gas Limited will be held at The 400 Club, Calgary, Alberta on June 2, 1995 at 4:00 p.m.

AOG HIGHLIGHTS

FINANCIAL

(Thousands except per share)	1994	1993	% Change
Gross revenue	$ 8,612	$ 4,368	+97
Cash flow before income tax	$ 2,575	$ 670	+284
per share	$ 0.039	$ 0.015	+160
Net loss after income tax	$ (291)	$ (706)	+59
per share	$ (0.005)	$ (0.016)	+69
Capital expenditures and acquisitions	$ 19,451	$ 2,520	+672
Total asset value	$ 36,181	$ 21,603	+67
Net asset value per share	$ 0.33	$ 0.35	-6
Long-term debt and convertible bond	$ 11,004	$ 4,998	+120
Shareholders' equity	$ 15,175	$ 7,775	+95
Number of shares outstanding	73,381	45,140	+63

OPERATING

Production			
Oil and natural gas liquids (bbls/d)	830	439	+89
Gas (mcfd)	3,509	1,566	+124
Reserves – proved and probable			
Oil and natural gas liquids (mstb)	2,621	2,228	+18
Natural gas (mmcf)	32,003	16,984	+88
Undeveloped land holdings			
Gross acres (000's)	178.3	47.2	+278
Net acres (000's)	55.4	13.5	+310

Facing Page:

Paul Stauffer, Chairman of the Board, (left) and Josef Hodel, President and Chief Executive Officer, (right)

In 1994, AOG met or exceeded all financial and operating targets. Record development, acquisition and financing activities have almost doubled the Company's asset base and set the stage for continued corporate growth and appreciation in shareholder value.

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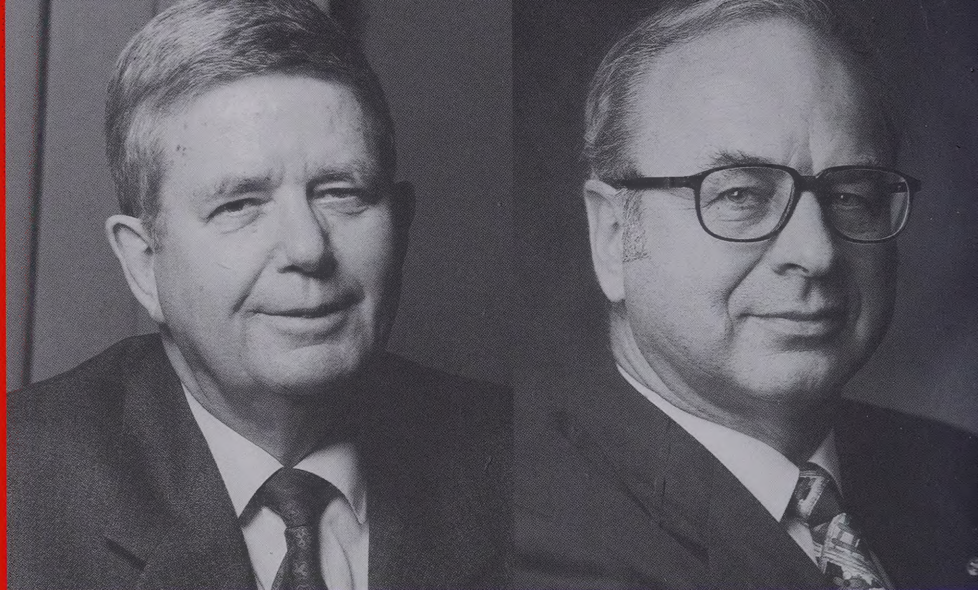
NOTICE OF ANNUAL GENERAL MEETING



Success is never an accident.

By planning for the future, the management of Alberta Oil and Gas Limited has built a dynamic company –

poised for growth, destined for success.

AOG

MESSAGE TO SHAREHOLDERS

Since its inception, Alberta Oil and Gas Limited ("AOG" or "the Company") has been a strategically directed company. During 1994, AOG's strengthened technical expertise and experience allowed the Company to pursue its goals more aggressively, resulting in unprecedented growth. Through the dedicated efforts of our employees, we met or exceeded all of our financial and operating targets.

1994 HIGHLIGHTS — A YEAR OF ACHIEVEMENT

Record development, acquisition and financing activities in 1994 have almost doubled the Company's asset base and set the stage for continued corporate growth and appreciation in shareholder value. Additionally, financial returns have improved significantly from the previous year. Gross revenue increased 97 percent to $8.6 million and cash flow increased 284 percent to $2.6 million. Cash flow per share increased 160 percent from $0.015 to $0.039 per share. AOG's operating netbacks improved 124 percent from last year, despite a drop in gas prices and marginal increases in oil prices.

The 1994 capital expenditures totalled $19.5 million and were financed through a combination of cash flow, new equity, debt and the disposition of non-core properties. Historically, AOG's equity issues have been well supported, particularly in Europe where a very strong and loyal shareholder base exists. In November, the Company completed a $5.1 million rights offering. Although the capital market had softened by the end of the year, the offering was oversubscribed.

Oil volumes constitute approximately two-thirds of total production, thereby reducing the impact of lower gas prices seen at year end 1994. In addition, AOG has entered into longer-term, continental based gas contracts which provide the best available prices to the Company.

Facing Page:
Paul Stauffer,
Chairman of the Board, (left)
and Josef Hodel,
President and
Chief Executive Officer, (right)

In 1994, AOG met or exceeded all financial and operating targets. Record development, acquisition and financing activities have almost doubled the Company's asset base and set the stage for continued corporate growth and appreciation in shareholder value.

During 1994, average daily production increased 98 percent from 596 to 1,181 barrels of oil equivalent per day. AOG increased its reserves base 48 percent to 5.8 million barrels of oil equivalent, while total asset value grew 67 percent to $36.2 million.

The Company invested $5.7 million in drilling and development activities and participated in 35 (6.64 net) new wells, with a success rate of 93 percent. The most rewarding drilling results were obtained in southeast Saskatchewan where 3-D seismic and horizontal drilling techniques enhanced our ability to access high productivity targets.

ACQUISITION ACTIVITIES

In 1994, AOG aggressively pursued acquisitions, investing $13.8 million in new reserves and producing properties. In the first quarter, all of the oil and gas assets of a private company were acquired for total consideration of $2.9 million. This transaction added 500,000 barrels of oil equivalent of proved and probable reserves and 180 barrels of oil equivalent per day of new production. In April, AOG purchased a group of producing gas properties in the Cache/Clay area for $9.6 million, adding 1,880,000 barrels of oil equivalent of proved and probable reserves and new production of 310 barrels of oil equivalent per day net to the Company. As a result of the significant upside potential, the Company expects to double production from this property in 1995. The purchase added a large number of wells with non-producing, proved reserves, plant and gathering system infrastructure and tripled the undeveloped land base of the Company. These acquisitions are consistent with AOG's corporate strategy and position the Company for continued growth into the future.

Board of Directors:
Heinz Senn, (upper left),
Dr. Urs Wehinger,
Vice-Chairman and
Chief Financial Officer
(upper right),
Charles V. Selby,
Corporate Secretary and
General Counsel
(lower left),
and Thomas R. Vukovich,
(lower right)

AOG has the elements for success – abundant investment opportunities, access to capital and talented people.

Acquisitions offer us a low risk alternative to reserve replacement at levels well below industry average finding costs.

Strategy for Growth

Expansion of the existing asset base through:

Acquisitions

Development

High Grade Exploration

Rationalization and Consolidation

OUTLOOK AND PLAN

Our strategic plan envisions an aggressive target of doubling the Company's asset base and production rate during 1995. We believe successful organizations require three essential elements: abundant investment opportunities, access to capital and talented people. Our 1994 results attest to this philosophy; the challenges of 1995 and beyond demand it.

With a greatly improved asset base, AOG has a larger inventory of opportunities available than ever before, allowing the flexibility to choose projects and tailor spending relative to changing circumstances which are so prevalent in our industry today. Capital spending for 1995 has been set at a minimum of $6 million, and this budget could easily be doubled from our inventory of projects if natural gas prices recover during the year. This year's budget is largely weighted towards oil development projects, reserving aggressive gas development for future higher netbacks.

Despite current gas prices, AOG's long-term outlook for commodity prices continues to be optimistic. Emerging economies in the world are expected to create a significant increase in demand for oil, and the prospects for large increases in supply appear to be limited, with a resultant upward pressure on prices. Natural gas prices have suffered from excess deliverability and mild winter conditions experienced throughout North America. AOG views this to be a short-term situation and expects a recovery during the latter part of 1995. The Company views current gas prices as an opportunity for further acquisitions which will be aggressively pursued in 1995.

The reduction in Canadian oil and gas public share issues will put increasing pressure on companies to turn to mergers as a means of growth and survival. AOG intends to monitor this activity closely and to take advantage of any opportunities that may arise.

Board of Directors:
Heinz Senn, (upper left),
Dr. Urs Wehinger,
Vice-Chairman and
Chief Financial Officer
(upper right),
Charles V. Selby,
Corporate Secretary and
General Counsel
(lower left),
and Thomas R. Vukovich,
(lower right)

AOG has the elements for success – abundant investment opportunities, access to capital and talented people.

AOG continues to receive outstanding financial support from its European shareholders, and enthusiastic response from new Canadian sources of equity funding. In addition, as part of its long-term corporate plan, the Company will continue to divest itself of non-strategic properties in 1995. Proceeds from such sales will be reinvested in new acquisitions and high return development activities.

During 1994 the Company added a number of senior staff. These individuals joined our existing employees in an all out effort to produce a record year. The stage has been set for a dynamic and exciting future.

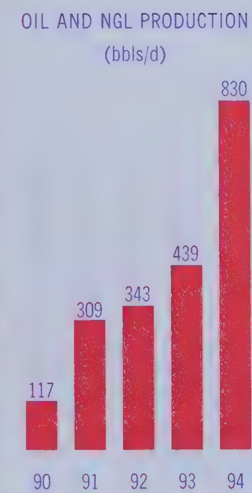
ACKNOWLEDGEMENTS

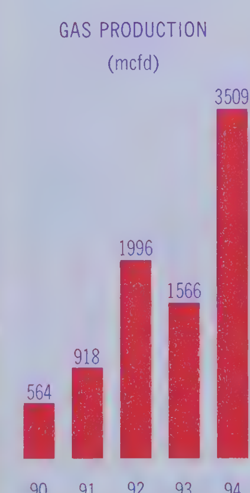
The achievements of the Company would not have been possible without the commitment and expertise of all of our employees. These individuals, whose photographs appear throughout this report, are the reason AOG has been able to meet its objectives and produce excellent results for our shareholders. Our thanks are also extended to our Board of Directors for their dedication and guidance, and to our shareholders for their confidence and support throughout this past year.

Paul Stauffer
Chairman

Josef Hodel
President and
Chief Executive Officer

Our exploration and development team combines decades of experience with state of the art technology to find and exploit future reserves and production.





Stanley W. Odut,
Senior Vice-President
and Chief Operating Officer
(upper left),
Catherine J. Buck,
Vice-President, Finance,
(upper right),
John D. Horning,
Vice-President,
Exploration and
Business Development
(lower left),
and Peter Horni,
Treasurer,
(lower right)

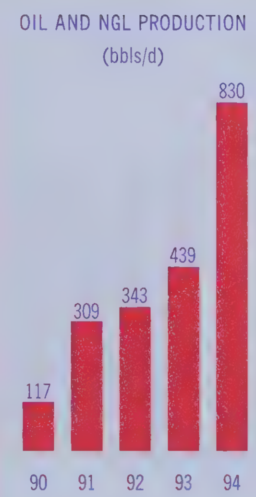
PRODUCTION

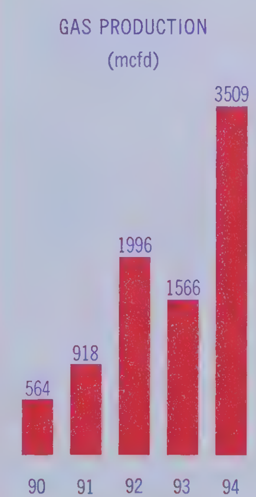
In 1994, AOG established new records for activity and growth. As a result of exploration, development and acquisition activities and after dispositions of 188 barrels of oil equivalent per day, average production volumes increased 98 percent to 1,181 barrels of oil equivalent per day. The Company's proved and probable reserves increased 48 percent in 1994 to 5,822 thousands of barrels of oil equivalent. The December 31, 1994 total asset value was $36.2 million, 67 percent higher than the prior year.

Oil and natural gas liquids production averaged 830 barrels per day, up 89 percent over 1993 levels of 439 barrels per day. Production gains were achieved as a result of drilling at Freeman, Ingoldsby, Ogston, Rosebank, Sounding Lake and a successful oilwell stimulation program initiated in the Sakwatamau area.

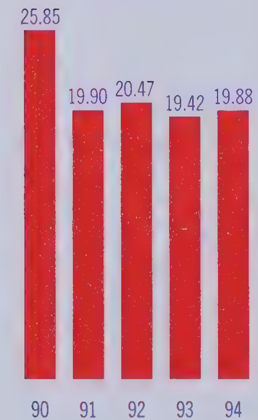
Natural gas production for 1994 averaged 3.5 million cubic feet per day, up 124 percent from 1993 levels of 1.6 million cubic feet per day. Production increases were due to the Cache/Clay acquisition and from the tie-in of shut in gas at Flatrock and Markerville. The production excluded 361 thousand cubic feet per day which was treated as a purchase price adjustment to the Cache/Clay transaction and was not reflected in revenues. The Company exited 1994 at production levels of 1,500 barrels of oil equivalent per day.

Crude oil prices for 1994 averaged $19.88 per barrel, up slightly from the 1993 average of $19.42 per barrel. Natural gas prices averaged $1.81 per thousand cubic feet during 1994, slightly lower than the 1993 average of $1.90 per thousand cubic feet.





OIL PRICE
($ per bbl)



GAS PRICE
($ per mcf)

DEVELOPMENT AND ACQUISITION ACTIVITIES

Expenditures on exploration and development projects, including the drilling of 35 wells with an average 19.0 percent working interest, totalled $5.7 million. The 1994 drilling program had a success rate of over 90 percent resulting in 27 (4.43 net) oil wells, five (1.71 net) gas wells and three (0.50 net) dry and abandoned wells. The most active areas were Cache/Clay and Sounding Lake North in Alberta, and Ingoldsby and Rosebank in Saskatchewan.

In addition to the drilling activity in 1994, a major facilities project was initiated and more than 50 percent completed in the Sakwatamau area. This gas tie-in project involves the expenditure of over $1.5 million for pipeline and plant facilities and when completed in early 1995, will connect 2.8 billion cubic feet of previously shut in Company gas reserves.

Through acquisitions totalling $13.8 million, the Company added approximately 2.5 million barrels of oil equivalent of reserves at an average cost of $5.53 per barrel. In the first quarter, all of the oil and gas assets of a private company, including 180 barrels of oil equivalent per day of production, were acquired for a consideration of $2.9 million. Effective April 1, 1994 over 70,000 net acres of producing and non-producing lands in the Cache/Clay area were purchased for $9.6 million, including 3.1 million cubic feet per day of existing production. Both of these acquisitions added proved non-producing reserves that offer substantial future development potential.

Several non-core properties were sold in 1994 for $3.5 million. These were fully developed and maximum value was realized on the transactions. Reserves totalling 502 thousand barrels of oil equivalent were sold at an average price of $7.07 per barrel of oil equivalent.

Freeman Unit No. 1, Alberta

The Company holds a 59.1 percent working interest in the Freeman Unit No. 1 located in the Swan Hills area. The Unit was established in 1968 and has produced oil from the Beaverhill Lake formation since 1962. The Company became operator of the Unit following acquisition of a controlling interest in 1992 when production averaged 140 barrels of oil per day. The Freeman Unit consists of 16 wells: seven oil wells, five shut in water injectors and four suspended oil wells. As of December 1994, Unit production was 197 (117 net) barrels of oil per day representing an increase of over 50 (30 net) barrels of oil per day from the same period in 1993. The increase was due to the drilling of two development wells. Oil from the Unit is produced to two Unit operated batteries. The 1995 plans include a waterflood reactivation project and a reservoir depletion study.

Sakwatamau Gething Unit, Alberta

AOG holds an 83.5 percent working interest and operates the Sakwatamau Gething Unit, located in the Swan Hills area approximately 20 miles southwest of the Freeman Unit No. 1. The Unit produces oil from the Gething sand and has been on production since 1975. The Sakwatamau Unit consists of six wells, five producing oil wells and one gas injector. The Company became operator of the Unit in 1992 when Unit production averaged 100 barrels (gross) of oil per day. Currently, the Unit is producing 138 (115 net) barrels of oil per day and 2.2 (1.7 net) million cubic feet of natural gas per day. Oil is produced to the Unit-owned battery and solution gas is reinjected into the Gething reservoir. In 1994, one of the existing producers was stimulated which tripled the well's productivity. A second stimulation in early 1995 has resulted in a similar production increase. Fracture stimulation programs are planned for the remaining Unit wells. Since the Unit is on a gas conservation scheme, gas compression facilities will be constructed to increase gas injection volumes and allow higher oil production.

Sakwatamau Non-unit, Alberta

Interests averaging 65 percent are held by the Company in 11,000 acres of lands offsetting the Gething Unit. Threshold gas reserves were identified for a pipeline gathering system and a gas plant construction project partially completed in 1994. New net sales of 2.0 million cubic feet of gas per day and 50 barrels of liquids per day commenced in March 1995, with additional volumes expected to be tied-in later in the year. The Company is also pursuing land acquisition and drilling opportunities in the surrounding area.

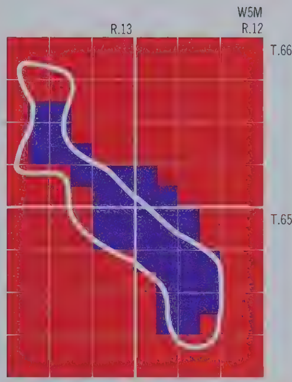
Ingoldsby, Saskatchewan

The Company holds a 24.1 percent working interest in the Ingoldsby West Voluntary Unit No. 1 in southeastern Saskatchewan. The Unit currently consists of four vertical wells and four 1994 horizontal wells. As a result of the new drilling, net production has increased from 10 barrels of oil per day to 190 barrels of oil per day. Plans include the drilling of at least two additional horizontal wells in the Frobisher Alida zone starting in the first quarter of 1995.

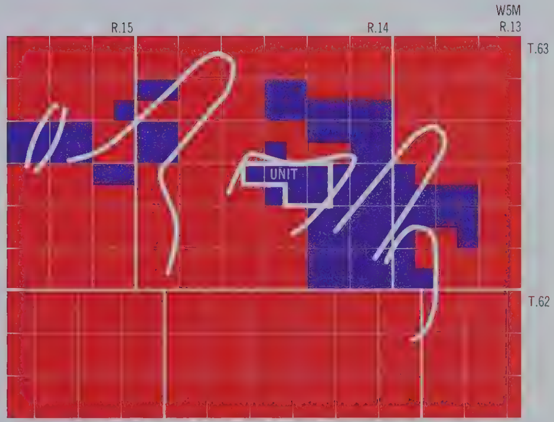
Rosebank, Saskatchewan

AOG holds interests averaging 34 percent in eight oil wells in the Rosebank area, located approximately five miles northeast of the Ingoldsby Unit. In 1994, the Company participated in two horizontal development wells (net 24.5 percent and 28.39 percent). These wells currently contribute 130 barrels of oil per day net to AOG. A 3-D seismic program has delineated additional potential, and further locations will be drilled in 1995.

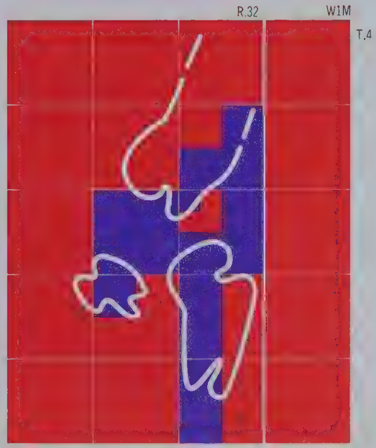
FREEMAN, ALBERTA



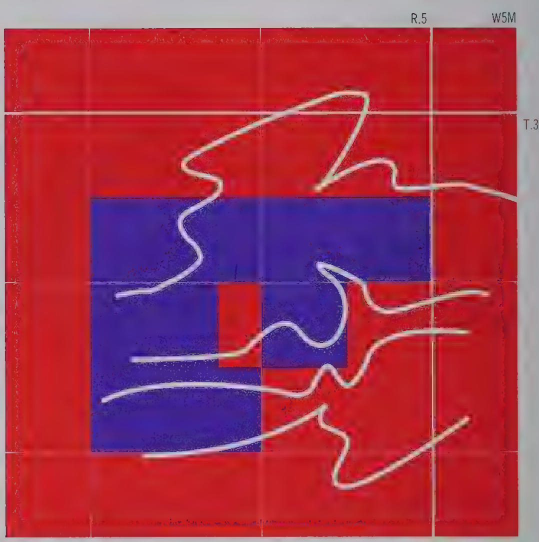
SAKWATAMAU, ALBERTA



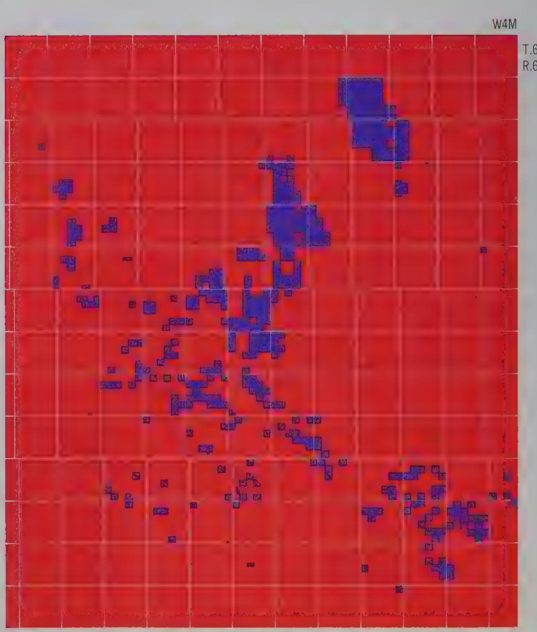
INGOLDSBY/ROSEBANK, SASKATCHEWAN



SOUNDING LAKE NORTH,
PROVOST AREA, ALBERTA



CACHE/CLAY, ALBERTA



Sounding Lake North, Alberta

The Company holds a 6.7 percent working interest in several sections of land located in the Provost area. The property consists of 20 producing oil wells and three water disposal wells. These wells produce from the Dina and Cummings formations. In 1994, 15 additional wells were drilled and new gathering and battery facilities were constructed. Current net production is approximately 80 barrels of oil per day. Additional drilling and a Cummings waterflood are planned for 1995.

Cache/Clay, Alberta

From April 1994 to year-end, the Company participated in the drilling of five new wells (1.56 net) in the Cache/Clay area, three of which were completed as gas wells. During the same period, the successful recompletion of four existing wells resulted in a combined additional production of over one million cubic feet per day net to the Company. Net reserve additions for the nine months in 1994, as estimated by McDaniel and Associates Consultants Ltd., are 2.95 billion cubic feet of saleable natural gas. This early success reaffirms the considerable exploitation potential of this property. In addition, new revenue is being generated from the custom processing of 2.5 million cubic feet per day of natural gas tied-in from third parties in late 1994. Additional custom users will be attracted in an effort to further optimize plant utilization.

The Company's 1995 Cache/Clay capital budget includes plans for the drilling of a minimum of 15 (5 net) additional wells and the re-completion or tie-in of another 15 (5 net) existing wells for a targeted increase in gas deliverability of five million cubic feet per day by year-end. Finding and tie-in costs in the area are extraordinarily low. This, combined with AOG's gas facilities will ensure favourable netbacks even at low natural gas prices.

OIL AND GAS RESERVES

For the 1994 corporate asset evaluation, the Company utilized two independent consulting firms. Paddock Lindstrom and Associates, who have evaluated AOG's assets in recent years, were retained to evaluate the existing properties. McDaniel and Associates Consultants Ltd. originally evaluated the Cache/Clay properties and were retained to evaluate these properties again at year-end.

At December 31, 1994, oil and natural gas liquids reserves totalled 2,621 thousand stock tank barrels compared to 2,228 thousand stock tank barrels at the end of 1993. Gas reserves almost doubled in 1994 to 32.0 billion cubic feet compared to 17.0 billion cubic feet in 1993. On a barrel of oil equivalent basis, proved reserves comprise 82 percent of the total reserve base.

The Company's reserve asset value, before ARTC, is $32.1 million discounted at 15 percent. Undeveloped land value is estimated at $3.1 million. Total Company reserve and land asset value, including ARTC, is $36.2 million.

OIL AND NGLs (mstb)	Proved Producing	Proved Non-Producing	Probable	Total
Balance, January 1, 1994	1,211	327	690	2,228
Drilling additions	427	0	3	430
Acquisitions	290	1	74	365
Dispositions	(202)	0	(22)	(224)
Revisions	409	(204)	(80)	125
Production	(303)	0	0	(303)
Balance, December 31, 1994	1,832	124	665	2,621

GAS (mmcf)	Proved Producing	Proved Non-Producing	Probable	Total
Balance, January 1, 1994	3,224	12,372	1,388	16,984
Drilling additions	0	1,658	221	1,879
Acquisitions	8,464	9,712	3,040	21,216
Dispositions	(789)	(1,772)	(221)	(2,782)
Revisions	(309)	(2,802)	(770)	(3,881)
Production[1]	(1,413)	0	0	(1,413)
Balance, December 31, 1994	9,177	19,168	3,658	32,003

1 Includes 132 mmcf excluded from revenue as a purchase price adjustment.

ASSET VALUE	Oil & NGLs mstb	Gas mmcf	Total mboe	Net Present Value ($000's) 10%	15%	20%
Proved producing reserves	1,832	9,177	2,750	22,461	18,468	15,788
Proved non-producing	124	19,168	2,041	12,629	9,201	7,021
Total proved reserves	1,956	28,345	4,791	35,090	27,669	22,809
Probable additional reserves	665	3,658	1,031	6,219	4,473	3,418
Total reserves	2,621	32,003	5,822	41,309	32,142	26,227
Land value				3,050	3,050	3,050
Reserves plus land value				44,359	35,192	29,277
ARTC				1,131	989	884
Total asset value				45,490	36,181	30,161

LAND

AOG's net land holdings increased approximately 230 percent from 1993 as a result of acquisitions. The undeveloped land component increased 310 percent. AOG enjoys a significant land base which provides opportunities for exploration and exploitation in the future. The undeveloped lands and lands to which no reserves have been assigned were valued at $3.1 million as at December 31, 1994 by Seaton-Jordan & Associates Ltd.

AOG intends to complement its land position in core areas by actively participating at Crown land sales in 1995.

ACREAGE SUMMARY (000 acres)	Developed		Undeveloped		Total	
as at December 31, 1994	gross	net	gross	net	gross	net
Alberta	199.7	51.1	176.6	55.2	376.3	106.3
British Columbia	5.2	0.3	1.3	0.1	6.5	0.4
Saskatchewan	2.1	0.4	0.4	0.1	2.5	0.5
Total	207.0	51.8	178.3	55.4	385.3	107.2

FINANCIAL OVERVIEW

Nineteen ninety-four was a year of unprecedented growth for AOG, with financial performance surpassing that of 1993 in virtually every measurement category. Significant increases in gross revenues (+97 percent) operating cash flow (+284 percent) and netbacks (+124 percent) illustrate the results achieved by the Company.

($000's)	1994	1993	1992
Oil revenues	6,129	3,095	2,506
Gas revenues	2,354	1,081	978
Plant revenues	129	192	176
Total revenues	8,612	4,368	3,660
Cash flow before income tax	2,575	670	550
Capital expenditures	19,451	2,520	3,986
Debt	11,004	4,998	4,900
Equity	15,175	7,775	8,328
Operating netbacks ($/boe)	11.19	8.99	8.55
Net asset value per share ($)	0.33	0.35	0.37
Market capitalization	22,014	11,285	6,465

These operating results reflect the impact of acquisitions and a successful development program which also creates the base for a strong performance in 1995. These developments resulted in a 427 percent replacement of reserves for the year, and included:

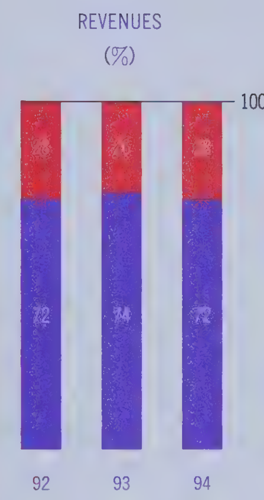
- disposition of mature oil and gas producing properties in the Drumheller/Wayne area for proceeds of $1.8 million, with the funds being redirected into ongoing acquisition and development programs;
- acquisition of $2.9 million of properties from a private company;
- construction of production facilities for gas reserves at Sakwatamau;

Disposition of fully developed non-core properties will generate capital for reinvestment in projects offering higher returns.

Dale Renz,
Controller, (upper left),
Marlene J. Sims,
Assistant Corporate Secretary,
(upper right),
Randy Thomsen,
Land Manager,
(lower left), and
Joe Ball,
Operations Manager
(lower right)

- acquisition of the Cache/Clay properties in east-central Alberta, representing additional gas reserves of 18.8 billion cubic feet and an immediate cash flow of $160,000 per month;
- acquisition of additional interests in the oil producing Freeman area;
- participation in highly successful horizontal drilling projects in the oil producing region of Ingoldsby, Saskatchewan; and
- disposition of interests in Neutral Hills for proceeds of $1.34 million.

The following discussion provides management's perspective on results in 1994 as compared to 1993. Financial statements follow this discussion and provide a full reporting of comparative results. The statements should be read in conjunction with the notes to the financial statements which succeed them. Throughout this document, a factor of ten mcf of natural gas to one barrel of oil (10:1) is used to convert gas to its barrel of oil equivalent, in accordance with industry practice.



PRODUCTION AND REVENUES

In 1994, AOG realized a total revenue of $8.6 million, a 97 percent increase over 1993. This increase is attributable to:

- oil and natural gas liquid production increased 89 percent over 1993 to average 830 barrels per day, resulting in an oil revenue increase of 98 percent over 1993, with a year-end exit rate of 1,000 barrels per day. The average oil price realized was $19.88 per barrel (1993 – $19.42 per barrel).
- natural gas production increased 124 percent from the prior year, totalling 1.3 billion cubic feet with an exit rate of 5.0 million cubic feet per day. The significant increase is primarily due to the Cache/Clay acquisition effective April 1, 1994. The average price realized for gas was $1.81 per thousand cubic feet (1993 – $1.90); total gas revenue increased 118 percent over 1993. Volumes totalling 132 million cubic feet ($229,000) were excluded from revenue as a purchase price adjustment.

- revenue from processing decreased $62,000 in 1994. New acquisitions included ownership in nine gas plants and operatorship of two gas plants. New contracts for custom processing were negotiated in the fall of 1994 which are expected to result in increased custom processing revenues for 1995.
- oil and gas royalty income increased $191,000 over 1993 as a result of property acquisitions.

With the increased diversification to gas in 1994, the Company became somewhat more susceptible to the reductions in gas prices encountered by the industry during the year. Favourable gas contracts, which expired in the fourth quarter, deferred the price impact to a degree. New gas marketing contracts for 1995 have reduced the Company's exposure to gas price fluctuations. In late 1994, the Company hedged a portion of its future oil production under a price swap arrangement.

Production from existing reserves is expected to significantly increase gross revenues in 1995, after allowing for a reduction in the average price of gas and a relatively stable oil price. Our largest gains are expected in gas sales, where a full year's production will be realized from the Cache/Clay properties in conjunction with an improved production efficiency due to certain facility upgrades currently underway. In addition, tie-in of significant capped gas reserves will occur in early 1995. Oil production is also expected to increase as several highly successful horizontal drilling efforts began producing in the latter part of 1994 and similar drilling is in progress for 1995.

ROYALTIES

Royalties increased from $0.7 million in 1993 to $1.4 million in 1994, reflecting the increase in total production. The effective Crown royalty rate incurred by AOG in 1994 was 16 percent, consistent on an overall basis with 1993. Of the total royalty expense, the net Crown portion (after ARTC) represented 50 percent (1993 – 58 percent) with 50 percent paid to other royalty owners (1993 – 42 percent).

The effective royalty rate is expected to increase in 1995 due to the expiration of certain royalty holidays enjoyed by the Company in 1994 and also due to changes made to the ARTC which are effective for 1995.

PRODUCTION COSTS

Operating cost per barrel of oil equivalent fell by 24 percent in 1994. AOG's production volumes increased by 97 percent, however, as a result of operating efficiencies achieved, total operating costs increased by only 50 percent.

The operating margin will remain relatively constant for 1995 on the anticipated production from existing reserves.

NETBACKS per boe	1994	1993	1992
Oil price ($/bbl)	19.88	19.42	20.47
Gas price ($/mcf)	1.81	1.90	1.33
Gross production revenue	$ 19.68	$ 19.19	$ 17.59
Net royalties	(3.15)	(3.14)	(2.77)
Field operating costs	(5.34)	(7.06)	(6.27)
Operating netback	11.19	8.99	8.55
General and administrative	(3.50)	(4.33)	(4.79)
Interest	(1.89)	(1.98)	(1.72)
Cash netback	$ 5.80	$ 2.68	$ 2.04
Production volume (boe)	431,026	217,577	198,049

As a result of increased administrative and operating efficiencies, cash netbacks increased by 116 percent.

GENERAL AND ADMINISTRATIVE COSTS

In 1994, general and administrative costs totalled $1.5 million, representing 18 percent of gross revenues, compared to $0.98 million (22 percent) for 1993. This downward trend is expected to continue into 1995 as production levels increase without corresponding increases in overhead costs.

It is AOG's policy to capitalize general and administrative expenditures which relate to acquisition, exploration and development activities. In 1994, a total of $0.49 million was capitalized, representing 24 percent of the gross general and administrative costs. In 1993 the capitalization amounted to $0.34 million (26 percent).

INTEREST AND LONG-TERM DEBT

Management will debt finance a portion of costs relating to acquisitions and development activities where such financing can be supported by cash flow from low risk reserves. In 1994, approximately one-half of the acquisition cost of the Cache/Clay properties, together with certain other development activities, were financed by debt. As a result, total long-term debt increased to $11 million from $5 million and interest expense increased to $0.8 million from $0.4 million.

DEPLETION AND RECLAMATION PROVISIONS

Depletion increased by $1.3 million (99 percent) over 1993 as a result of higher production volumes for the year. The depletion cost per barrel of oil equivalent produced increased to $5.84 in 1994 from $5.75 in 1993.

AOG estimates the prospective future well abandonment and site restoration liability associated with current operations. This liability is accrued based on current production relative to total proved reserves. At December 31, 1994, the total future (undiscounted) liability for well abandonment and site restoration was estimated to be $2.9 million, of which $0.3 million has been allocated to date. The 1994 provision increased by $171,000 over 1993 due to both increased production during the year and an increase in the net well interests owned by the Company.

CASH FLOW AND NET LOSS

Consistent with the increased sales revenue and improved operating margin, cash flow from operations before income tax and changes in non-cash working capital increased to $2.6 million from $0.7 million, an increase of 284 percent over 1993. Earnings also improved by 59 percent, from ($0.7) million to ($0.3) million, a result of improved cash netbacks and reduced finding costs per barrel of oil equivalent. This trend is expected to continue in 1995 as a result of excellent low cost development opportunities on existing lands.

AOG follows the full cost method of accounting for oil and gas operations. Under this method the Company annually measures the carrying value of its oil and gas assets against a ceiling as prescribed under the full cost guidelines. This test ensures that capital costs, net of related taxes, do not exceed the estimated cash flow from proved oil and gas reserves valued using year-end prices and adjusted for general and administrative costs required to produce the reserves. As a result of the test performed for December 31, 1994, there was no writedown required.

Cash flow per share is $0.039 (1993 – $0.015), and is calculated based on 66,434,385 weighted average shares (1993 – 43,241,088). Cash flow per share is computed using the net loss and adding income tax, depletion, depreciation, amortization and the provision for abandonment and restoration. The weighted average number of shares is calculated as if the shares issued under the Rights Offering were issued April 1, 1994, being the date of the underlying property acquisition. Using the actual share issue date would result in a cash flow per share of $0.047 based on 54,573,459 shares (1993 – $0.015). Cash flow from operations after changes to non-cash working capital is $0.068 per share based on 54,573,459 shares (1993 – $0.020).

INCOME TAX

The Company is not currently taxable on its income, but is subject to taxes on capital and also provincial resource surcharges on Saskatchewan production. Both of these taxes increased due to expanded operations in 1994.

The Company does not anticipate being taxable on its operating income in 1995 due to accumulated resource pools. A portion of the resource pools are restricted to income from certain properties. The excess of the tax value of the resource pools over the corresponding book value of the oil and gas assets results in a future tax saving which has not been reflected on the financial statements as there is currently no certainty as to the timing of realization of this benefit.

In 1994, the Company renounced $164,000 of development expenditures in fulfillment of its obligation under a 1993 flow through share agreement.

LIQUIDITY AND CAPITAL RESOURCES

AOG experienced substantial growth in 1994 through acquisitions of oil and gas reserves and development programs. Capital expenditures were $19.5 million in 1994 compared to $2.5 million in 1993. These activities were funded by a combination of 28,240,733 new equity shares, long-term debt and cash flow from operations. The Company has been able to access the capital markets since incorporation with equity issues that have been well supported, particularly in Europe where AOG has a very strong and loyal shareholder base. In November, the Company completed a $5.1 million Rights Offering issuing 18,344,229 common shares at $0.28 per share to finance the Cache/Clay acquisition. Although the capital market had softened by the end of the year, this offering was oversubscribed. Earlier in the year, the Company completed the purchase of all of the oil and gas assets of a private oil and gas firm with payment of 8,833,333 common shares issued from treasury at a deemed price of $0.30 per share and $250,000 cash.

AOG's share capital increased to $17.8 million in 1994 from $10.1 million in 1993. The Company had 73,380,917 common shares outstanding at the end of the year, or 54,573,459 common shares on a weighted average basis. Long-term bank debt increased to $9.1 million in 1994 from $3.0 million in the prior year.

CAPITAL EXPENDITURES ($000's)	1994	1993
Property acquisitions	$ 13,758	$ 363
Geological and geophysical	47	161
Drilling and completion	1,823	1,511
Production equipment and facilities	3,823	485
Total	$ 19,451	$ 2,520

CAPITAL EXPENDITURE FUNDING ($000's)		
Cash flow from operations	$ 3,727	$ 876
Net change in working capital	(1,595)	485
Issue of common shares	7,764	473
Increase in long-term debt	6,006	148
Proceeds from property dispositions	3,549	538
Total	$ 19,451	$ 2,520

NET ASSET VALUE ($000's)		
Working capital	$ (401)	$ (742)
Proved and probable reserve value[1]	32,142	20,182
Land and ARTC	4,039	1,421
	$ 35,780	$ 20,861
Total non-current liabilities	(11,283)	(5,165)
Net asset value	$ 24,497	$ 15,696
Net asset value per common share – basic ($)	$ 0.33	$ 0.35

1 Based on 15 percent discounted cash flow, using escalating prices and cost assumptions for proved and probable reserves and plant processing as determined by independent petroleum engineers at December 31, 1994.

BUSINESS RISKS

Participation in the energy industry comes with certain inherent risks. AOG works to manage these risks in such a way that capital is preserved for the maximum benefit of the shareholder.

Exploration and development risk is addressed initially through the corporate strategy AOG has chosen of growth through acquisitions and follow-up development.

Exploration and development risk is also reduced through the employment of highly qualified staff, maintaining operating control and focusing in their area of expertise. Capital investment is directed towards property acquisition and development where existing reserves and geological trends have already been identified. New technology is being used both in finding reserves and in optimizing production from existing reserves. The Company participates in only low risk exploration funded by discretionary cash flow.

Product prices are dictated by international supply and demand forces beyond the control of AOG. The Company mitigates price risk in several ways, including a strategy of maintaining a balanced asset mix. This minimizes the impact of a poor sales price for one commodity. There is also an emphasis on profitability which entails a focus on low operating, finding and on-stream costs. This will allow the Company to achieve profitability even in adverse price conditions. The Cache/Clay acquisition is an example of a core area with low cost drilling and multi-zone potential. AOG is able to respond quickly to the market with the ability to implement projects as they become economically viable.

AOG relies on three sources of funding for its growing capital expenditure program. Internally generated sources of funds, including cash flow and proceeds from disposition of non-core assets, together with bank debt will sustain a minimum capital spending budget. A more extensive program can be pursued if new equity is obtained on favourable terms. The Company maintains a conservative policy with respect to debt and operates with a highly flexible capital

In the oil industry, risk is a constant companion. We minimize its effects through our strategy, expert staff and planning.

George Yip,
Marketing Manager
(upper left),
Karen Hinds,
Assistant Manager,
Acquisitions and Dispositions,
(upper right),
Joanne Gilroy-Brown,
Senior Land Administrator,
(lower left), and
Barbara Maluta,
Receptionist,
(lower right)

expenditures program. Commodity and financial hedging techniques have been closely analyzed in 1994. The Company has entered into hedging contracts with respect to oil sales. These techniques will continue to be reviewed to determine the appropriateness of use in 1995.

AOG recognizes the potential risks to the environment inherent in its business activities. AOG's Board of Directors has, on behalf of all shareholders, committed the Company to protect and maintain the environment by establishing a formal environmental policy. Senior management supports the policy and is responsible for implementing it throughout the organization. The Company conducts its business operations in compliance with all provincial and federal operations and environmental regulations. A complete environmental assessment of AOG's operations uncovered no current environmental concerns.

OUTLOOK

Looking at 1995 and beyond, AOG remains very optimistic that the pattern of growth established over the past year will continue. With a strong team in place, the Company is structured to implement increased levels of development and operations activities. The 1995 capital budget for development projects has been set at a minimum of $6 million, largely weighted towards oil. Industry conditions are changing and should natural gas prices strengthen, the capital program would be adjusted accordingly. In the first quarter of 1995, AOG participated in six successful wells, including two gas completions at Cache/Clay and a prolific horizontal oil producer at Ingoldsby. At Sakwatamau, gas and liquids production commenced through the newly built plant and gathering facility.

In addition to the substantial growth anticipated through the development program, AOG also intends to aggressively pursue acquisitions. The momentum achieved in 1994 will be carried forward into 1995 continuing to add value and meaningful growth.

AUDITORS' REPORT TO SHAREHOLDERS

We have audited the balance sheets of Alberta Oil and Gas Limited as at December 31, 1994 and 1993 and the statements of operations, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1994 and 1993 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG Peat Marwick Thorne

Chartered Accountants
Calgary, Canada
February 24, 1995

BALANCE SHEETS

as at December 31

	1994	1993
ASSETS		
Current assets		
Cash	$ 41,060	$ 38,754
Accounts receivable	3,069,400	1,543,398
	3,110,460	1,582,152
Property, plant and equipment (notes 2 and 4)	26,794,940	13,606,283
Deferred charges (note 3)	64,327	76,218
	$ 29,969,727	$ 15,264,653
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 3,441,126	$ 2,318,968
Income tax payable	70,118	5,180
	3,511,244	2,324,148
Long-term debt (note 4)	9,054,365	3,048,330
Convertible bond (note 4)	1,950,000	1,950,000
Deferred abandonment and restoration costs	278,673	166,800
	14,794,282	7,489,278
SHAREHOLDERS' EQUITY		
Share capital (note 5)	17,787,869	10,096,951
Retained earnings	(2,612,424)	(2,321,576)
	15,175,445	7,775,375
	$ 29,969,727	$ 15,264,653

On behalf of the Board:

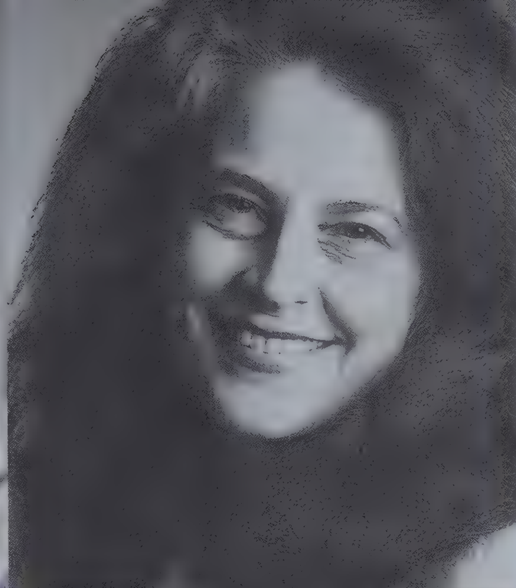
Director

Director

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

for the years ended December 31

	1994	1993
REVENUE		
Oil	$ 6,129,119	$ 3,095,423
Gas	2,353,749	1,080,923
Gas plant	129,474	191,695
	8,612,342	4,368,041
Net crown royalties	(680,945)	(388,186)
Other royalties	(677,601)	(281,543)
	7,253,796	3,698,312
EXPENSES		
Production	2,300,952	1,535,516
Processing	51,371	62,323
General and administration	1,510,199	981,936
Interest – long-term	816,462	448,203
Provision for abandonment and restoration	235,000	63,600
Depletion, depreciation and amortization	2,544,660	1,278,588
Net loss – before income tax	(204,848)	(671,854)
Income tax – current	86,000	34,000
Net loss	(290,848)	(705,854)
Retained earnings – beginning of year	(2,321,576)	(1,615,722)
Retained earnings – end of year	$ (2,612,424)	$ (2,321,576)
Net loss per share	$ (0.005)	$ (0.016)



Our staff's attention to operations and marketing has improved product netbacks, thereby contributing to our bottom line results.

Kurt Ehmann,
Financial Accountant,
(upper left),
Caroline Schiffner,
Production Accountant,
(upper right), and
Richard Grohn,
Engineering Technologist
(lower right)

STATEMENTS OF CHANGES IN FINANCIAL POSITION

for the years ended December 31

	1994	1993
CASH PROVIDED BY OPERATIONS		
Net loss	$ (290,848)	$ (705,854)
Charges not affecting cash		
Depletion, depreciation and amortization	2,544,660	1,278,588
Provision for abandonment and restoration	235,000	63,600
	2,488,812	636,334
Changes in non-cash working capital	1,237,732	239,715
	3,726,544	876,049
FINANCING ACTIVITIES		
Issue of common shares	7,763,998	886,035
Repurchase of common shares	–	(362,840)
Convert bonds to common shares	–	(50,000)
Increase in long-term debt	6,006,035	148,330
	13,770,033	621,525
INVESTING ACTIVITIES		
Property, plant and equipment additions	(19,451,281)	(2,519,822)
Proceeds of sale of property, plant and equipment	3,549,417	538,462
Changes in non-cash working capital relating to investment activities	(1,576,638)	400,000
Deferred charges	(15,769)	–
	(17,494,271)	(1,581,360)
CASH		
Increase (decrease)	2,306	(83,786)
Beginning of year	38,754	122,540
End of year	$ 41,060	$ 38,754

Note 1
Summary of Significant Accounting Policies

Petroleum and Natural Gas Properties

The Company follows the full cost method of accounting in accordance with the guidelines issued by the Canadian Institute of Chartered Accountants, whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized. All such costs are accumulated in a single cost centre, representing the Company's activities which are exclusively in Canada. Such costs include land acquisitions, drilling, and geological and geophysical expenses related to exploration and development activities. Gains or losses are not recognized upon disposition of oil and gas properties unless crediting the proceeds against accumulated costs would result in a significant change in the rate of depletion.

Costs capitalized in the cost centre are depleted using the unit-of-production method, based on estimated proved oil and gas reserves, before royalties, as determined by independent consulting engineers. For purposes of the depletion calculation, oil and gas reserves are converted to a common unit of measure on the basis of their relative heating value. The carrying value of undeveloped properties is excluded from the depletion calculation.

In applying the full cost method, the Company performs a ceiling test which limits the capitalized costs less accumulated depletion and depreciation to an amount equal to the estimated undiscounted value of future net cash flow from proved oil and gas reserves, based on year end prices and costs, and after deducting estimated future general and administrative expenses, deferred abandonment and restoration costs, financing costs and income taxes.

The Company periodically reviews the costs associated with undeveloped properties to determine whether the costs will be recoverable. An impairment allowance is made if the results of the review indicate an impairment has occurred.

Deferred abandonment and restoration costs are provided for using the unit-of-production method. Costs are estimated based on current regulations, expenditures, technology and industry standards. Abandonment and restoration costs are charged to the accumulated provision account as incurred.

Substantially all of the Company's exploration and development activities are conducted jointly with others. Accordingly, the financial statements reflect only the Company's proportionate interests in such activities.

Gas Plant Depletion and Depreciation

Certain gas plants where Company-owned reserves are being processed through the plants are being depleted using the unit-of-production method. A gas plant where the Company earns processing income is depreciated over its useful life using the declining balance method at a rate of 10 percent per year, after adjustment for the estimated salvage value.

Note 2
Property, Plant and Equipment

DECEMBER 31, 1994	Cost $	Accumulated Depreciation and Depletion $	Net Book Value $
Petroleum and natural gas properties	26,630,099	5,736,720	20,893,379
Production equipment and facilities	7,037,285	1,135,724	5,901,561
	33,667,384	6,872,444	26,794,940

DECEMBER 31, 1993			
Petroleum and natural gas properties	14,049,989	3,493,311	10,556,678
Production equipment and facilities	3,910,738	861,133	3,049,605
	17,960,727	4,354,444	13,606,283

During 1994, overhead applicable to acquisition, development and exploration activities in the amount of $492,073 (1993 – $341,076) was capitalized. Interest of $75,168 relating to a property acquisition was capitalized during 1994 (1993 – $nil). The depletion calculation has excluded $2,404,000 (1993 – $233,000) of undeveloped land.

Note 3
Deferred Charges

Bond issue costs are being amortized over the five year life of the convertible bond. Accumulated amortization at December 31, 1994 totalled $219,571 (1993 – $191,911).

Note 4
Long-Term Debt

(i) At December 31, 1994, the Company had utilized $8,920,000 of an available revolving demand credit facility in the amount of $9,400,000, with a lender (Alberta Treasury Branches). The debt bears interest at the lender's prime rate plus 7/8 percent and is secured by certain petroleum and natural gas properties, a general charge over all other assets, a general assignment of production reserves and a debenture. No portion of the credit facility is a current liability as the Company is in compliance with the loan conditions.

(ii) At December 31, 1994, the Company had a demand loan payable to a Swiss bank in the amount of 150,000 Swiss Francs ($134,365 Cdn.). Nine percent interest was payable on a quarterly basis during 1994 (1993 – 12 percent).

(iii) In 1991, the Company issued 12 percent convertible bonds which mature and are redeemable on October 1, 1996. The bonds are convertible into Common shares of the Company after October 1, 1993 based on a conversion price which shall be the greater of $0.20 per Common share or the average trading price of the Common shares determined over the 60 day period preceding the date of notice adjusted for the maximum discount currently permitted under the bylaws to the Alberta Stock Exchange. The bonds are unsecured and are subordinated to the revolving demand credit facility. In addition, the Company has agreed not to create or permit any further indebtedness (with the exception of bank indebtedness) in priority to the interests of the bondholders. During 1993, $50,000 of the bonds were converted into 213,220 Common shares of the Company ($0.235 per share). No conversions took place during 1994.

Note 5
Share Capital

AUTHORIZED:

An unlimited number of Preferred shares, issuable in series,

An unlimited number of Common shares, without nominal or par value,

Voting Convertible Incentive shares, without nominal or par value, restricted to 10 percent of the issued and outstanding Common shares.

	1994		1993	
ISSUED	Number	$	Number	$
Common shares, beginning of year	45,140,184	10,084,994	43,096,547	9,931,719
Add: – shares for cash under a flow-through share agreement[1]	630,636	90,885	3,215,517	466,115
– shares issued on conversion of $50,000 bonds	–	–	213,220	50,000
– shares issued for asset purchase	8,833,333	2,650,000	–	–
– shares issued under Rights Offering	18,344,229	4,853,255	–	–
– stock options exercised	432,535	96,778	–	–
Less: – shares repurchased or cancelled	–	–	(1,385,100)	(362,840)
Common shares, end of year	73,380,917	17,775,912	45,140,184	10,084,994
Voting convertible incentive shares	2,815,724	11,957	2,815,724	11,957
Share capital, end of year		17,787,869		10,096,951

1 Net of tax benefits of $73,080 renounced to shareholder in 1994 (1993 – $369,920).

(i) During 1993, the Company entered into a flow-through share agreement with a third party whereby the Company received funds of $1,000,000 for the issuance of 3,846,153 Common shares at $0.26 per share. At December 31, 1993, the Company had an amount of $163,965 included in long-term debt, which represents unrenounced capital costs associated with 630,635 Common shares, which were issued on March 14, 1994.

(ii) At December 31, 1994, the Company had outstanding 2,815,724 Voting Convertible Incentive Shares to certain directors, officers and other persons. The Voting Convertible Incentive Shares were convertible up to December 31, 1994 into an equal number of Common shares if the Company achieved a compounded 15 percent annual increase in net asset value per Common share over the two year period preceding December 31, 1994. As the conversion is sensitive to commodity pricing, particularly depressed gas prices as at year end 1994, no Voting Convertible Incentive Shares were exchanged for Common shares of the Company and the conversion right has expired. During 1995, the Company will redeem all of the outstanding Voting Convertible Incentive Shares at a price of $0.01 per share for an aggregate redemption amount of $28,157.

(iii) At December 31, 1994, the Company had outstanding options to issue 5,070,440 Common shares (1993 – 4,272,471) to directors, officers, employees and other persons. During 1994, 6,977 options to acquire Common shares expired in accordance with the Company's option plan. Options outstanding at December 31, 1994 to acquire Common shares of the Company are exercisable at prices between $0.25 and $0.30 ($0.22 and $0.25 for 1993) and at various times until November 23, 1999 (November 30, 1998 for 1993).

The oil and gas industry is, by nature, capital intensive. Access to capital in the form of equity and debt financing is crucial to growth.

Alberta Oil and Gas Limited is supported by a loyal European shareholder base which in late 1994 oversubscribed an equity issue in the midst of soft North American markets.

Note 6
Income Taxes

Note 7
Commitments

Note 6
Income Taxes

At December 31, 1994, the Company had approximately $28,927,000 (1993 – $16,500,000) of resource and other unused tax pools available to offset future taxable income. Of these amounts, $2,790,000 (1993 – $6,900,000) are streamed against income from certain properties. Petroleum and natural gas properties with a net book value of $3,177,000 (1993 – $2,070,000) have no cost for income tax purposes.

The following table reconciles income taxes calculated at statutory rates with actual income taxes.

	1994	1993
Net loss before income tax	$ (204,848)	$ (671,854)
Income tax at statutory rates of 44.3 percent	$ (90,700)	$ (297,600)
Effect on taxes of:		
Crown royalties	408,900	238,800
Freehold mineral taxes	45,100	32,200
Resource allowance	(402,900)	(133,300)
Alberta Royalty Tax Credit	(137,900)	(50,500)
Non tax base depletion	148,400	72,900
Other	7,000	1,900
Unrecorded benefit of current year's losses	22,200	135,600
	0	0
Capital taxes	$ 86,000	$ 34,000

Note 7
Commitments

(i) By virtue of a Corporate and Investment Management Agreement with Alberta FutureVest Corporation (the management company) controlled by an officer and director of the Company, the Company receives the direct benefits of management supported by a team of professionals who specialize in the management of a number of companies on a cost-sharing basis. The agreement expires December 31, 1999. Fees in connection with these services are determined as the greater of $5,000 per month or 5 percent of defined net operating income of the Company. In addition, the agreement provides for the payment of an additional 15 percent of all subcontracted corporate and financial management and technical management services provided by the management company plus a royalty interest in connection with acquisitions of new properties and the drilling of new wells subsequent to December 31, 1989 (see note 8).

The Company has entered into a five-year agreement effective January 1, 1991 with the management company, to rent certain office furniture, equipment and computer hardware and software. The estimated annual rental charges for the balance of the agreement are: 1995 – $198,800.

(ii) At a Special General Meeting of Shareholders held July 12, 1990, the shareholders of the Company:

(a) authorized the Board of Directors to extend the term of the Corporate and Investment Management Agreement for a total term of five years in the event that a takeover bid is made for the Common shares of the Company, which the Board of Directors determines is not in the best interests of the shareholders of the Company; and

(b) approved a Directors' Severance and Indemnification Contract which, in part, provides for certain payments to be made to Directors of the Company in the event of a hostile takeover bid. This plan was implemented in January, 1991.

(iii) The Shareholders approved a Shareholder Protection Rights Plan Agreement (the "Plan"), July 4, 1994. The Plan replaces a previous shareholders' rights plan approved at a Special General Annual Meeting of Shareholders held on July 12, 1990. The Plan will remain in force for a period of ten years, subject to shareholder ratification at the annual meeting immediately following the fifth anniversary of the Plan.

(iv) The Company entered into an agreement to lease office space for five years beginning October 1, 1990 for approximately $100,000 per year.

Note 8
Related Party Transactions

(i) Fees paid pursuant to the Corporate and Investment Management Agreement (see Note 7(i)):
1994 – $537,300 1993 – $305,024

(ii) The Company paid rental charges for office furniture and equipment, and computer hardware and software including equipment sold to Alberta FutureVest Corporation at fair market value in a sale and lease back arrangement effective January 1, 1991. The Company, under its agreement with Alberta FutureVest Corporation, paid rental charges as follows:
1994 – $74,705 1993 – $58,292

The rental charge represents a cost recovery to the management company and has no profit component. Net advances to the management company at year end totalled $47,700 (1993 – $43,124).

(iii) The Company leases office space from a company owned by a director as follows:
1994 – $101,423 1993 – $91,107

The amount of rent paid reflects the Company's proportional share of actual rental costs incurred by the other company. There is no profit component included in the lease rental costs. Net advances to this company outstanding at year end totalled $148,250 (1993 – $3,585).

(iv) During the year, the Company acquired all of the oil and natural gas assets of a private company owned by a director for a combination of cash and 8,833,333 Common shares. The purchase price was determined by reference to independent engineering appraisals.

Note 9
Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

Nineteen ninety-four ended

as the best year

in our corporate history.

As we meet our goals

in the future, we will

look back and say,

"That was just

the beginning..."

FIVE YEAR REVIEW

FINANCIAL	1994	1993	1992	1991	1990
($ thousands except per share amounts)					
Oil	6,129	3,095	2,506	2,362	1,104
Gas	2,354	1,081	978	426	302
Plant	129	192	176	222	215
Gross revenue	8,612	4,368	3,660	3,010	1,621
Operating expenses	2,352	1,598	1,416	1,332	569
Net operating income	4,901	2,100	1,840	1,256	908
General and administrative	1,510	982	949	849	752
Cash flow before income tax	2,575	670	550	189	124
per share	0.039	0.015	0.013	0.004	0.007
Net loss	(291)	(706)	(560)	(531)	(230)
per share	(0.005)	(0.016)	(0.013)	(0.012)	(0.005)
Capital expenditures and acquisitions	19,451	2,520	3,986	1,656	8,547
Long-term debt and convertible bond	11,004	4,998	4,900	2,278	1,482
Shareholders' equity	15,175	7,775	8,328	8,888	9,420

OPERATING	1994	1993	1992	1991	1990
Production					
Oil and NGLs (bbls/d)	830	439	343	309	117
Gas (mmcfd)	3.5	1.6	2.0	0.9	0.6
Price					
Oil ($/bbl)	19.88	19.42	20.47	19.90	25.85
Gas ($/mcf)	1.81	1.90	1.33	1.27	1.46
Reserves, proved and probable					
Oil and NGLs (mstb)	2,621	2,228	2,204	1,050	1,176
Gas (bcf)	32.0	17.0	19.5	19.0	19.1
Proved and probable reserve value, discounted at 15 percent before taxes and ARTC	32,142	20,182	20,041	15,862	19,779
Net asset value per share	0.33	0.35	0.37	0.33	0.46
Undeveloped land holdings (thousand net acres)	55.4	13.5	17.9	12.7	20.6

SHARE ACTIVITY	1994	1993	1992	1991	1990
Volume traded (thousands)	5,155	6,695	2,840	4,666	3,540
Share price, close ($)	0.30	0.25	0.15	0.17	0.20
Number of shares outstanding (thousands)	73,381	45,140	43,097	43,097	43,103

NETBACKS ($ per boe)	1994	1993	1992	1991	1990
Gross production revenue	19.68	19.19	17.59	19.06	25.08
Net royalties	(3.15)	(3.14)	(2.77)	(2.89)	(2.76)
Field operating expenses	(5.34)	(7.06)	(6.27)	(8.07)	(8.27)
Operating netback	11.19	8.99	8.55	8.10	14.05

CORPORATE INFORMATION

Board of Directors

Paul Stauffer
Lenzburg, Switzerland

Dr. Urs Wehinger
Zürich, Switzerland

Josef Hodel
Calgary, Alberta

Heinz Senn
Oftringen, Switzerland

Thomas R. Vukovich
Calgary, Alberta

Charles V. Selby
Calgary, Alberta

Officers

Paul Stauffer
Chairman

Dr. Urs Wehinger
Vice-Chairman and
Chief Financial Officer

Josef Hodel
President and
Chief Executive Officer

Charles V. Selby
Corporate Secretary and
General Counsel

Stanley W. Odut
Senior Vice-President and
Chief Operating Officer

Catherine J. Buck
Vice-President, Finance

John D. Horning
Vice-President,
Exploration and
Business Development

Dale Renz
Controller

Peter Horni
Treasurer

Marlene J. Sims
Assistant Corporate
Secretary

Corporate Address

Alberta Oil and Gas Limited
1200, 700-4th Avenue S.W.
Calgary, Alberta T2P 3J4

Banker

Alberta Treasury Branches
225-4th Avenue S.W.
Calgary, Alberta T2P 4K3

Stockholder Information

The shares of Alberta Oil and Gas Limited are listed for trading on the Alberta Stock Exchange under the symbol AOG.

At December 31, 1994, the number of shares issued and to be issued was 73,380,917

Transfer Agent and Registrar

The R-M Trust Company
600, 333-7th Avenue S.W.
Calgary, Alberta T2P 2Z1

Auditors

KPMG Peat Marwick Thorne
1200, 205-5th Avenue S.W.
Calgary, Alberta T2P 4B9

Legal Counsel

Bennett Jones Verchere
4500, 855-2nd Street S.W.
Calgary, Alberta T2P 4K7

Abbreviations

bbls	barrels
bbls/d	barrels per day
mbbls	thousand barrels
bopd	barrels of oil per day
mstb	thousand stock tank barrels
mcf	thousand cubic feet
mcfd	thousand cubic feet per day
mmcf	million cubic feet
mmcfd	million cubic feet per day
bcf	billion cubic feet
boe	barrels of oil equivalent wherein natural gas is equated to oil using 10 mcf = 1 barrel of oil
mboe	thousand barrels of oil equivalent
NGLs	natural gas liquids
ARTC	Alberta Royalty Tax Credit

AOG

ALBERTA OIL AND GAS
1200, 700-4TH AVENUE S.W.
CALGARY, ALBERTA, CANADA T2P 3J4

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